The Local Government Pension Scheme (England and Wales)

Trivial Commutation

Guidance note

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Jenny Bullen FIA
Louise Harker FFA

Contents

1 Introduction

1.1 The Secretary of State for Levelling Up, Housing and Communities is required under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') (SI 2013/2356), as amended, to issue actuarial guidance on the calculation of the amounts payable on trivial commutation of a pension, either on a member's retirement, or following a member's death.

1.2 This guidance relates to commutation of trivial or, where applicable, small benefit rights, regardless of whether the member has been an active member of the 2014 Scheme, or whether the benefits were earned before or after 1 April 2014. It also applies to councillors.

1.3 The remainder of this introduction contains:

- details of the implementation and future review of this guidance,

- the relevant legislative references, and

- statements about third party reliance and liability.

1.4 In the remainder of this note:

- Sections 2 to 5 deal respectively with the trivial commutation of a member's pension, a dependant's pension, children's pensions, and a pension credit member's pension, where the relevant conditions are met

- Section 6 provides examples

- Appendix A sets out the assumptions underlying the factors in effect at the date of this note

- Appendix B sets out some important limitations

1.5 This guidance has been carried out in accordance with the applicable Technical Actuarial Standards: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

Implementation and Review

1.6 The Secretary of State is required to consult GAD before issuing actuarial guidance under the 2013 Regulations [Regulation 2(3) of the 2013 Regulations].

1.7 As part of this consultation the Department for Levelling Up, Housing and Communities (DLUHC) has asked GAD to recommend actuarial guidance in respect of the regulations detailed above. This document forms GAD's recommendation for the actuarial guidance required by these regulations.

1.8 This note has effect only when this guidance is issued by the Secretary of State in accordance with Regulation 2(3) of the 2013 Regulations and is subject to the implementation instructions provided at that time.

1.9 This guidance is intended to supersede advice previously issued for the purposes of trivial commutation calculations, carried out from the date issued on the front of this note. No advice issued in the past should be used for cases after this date. In particular, this guidance supersedes:

"Local Government Pension Scheme (England and Wales): Trivial Commutation" dated 15 April 2020.

1.10 This note contains no factor tables, these can be found in the latest Local Government Pension Scheme (England and Wales) consolidated factor workbook as the 500 series (Trivial Commutation).

1.11 The factors will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light. The factors to be used when applying the approach set out in this guidance should reflect the factors in force as at the effective date of the calculation.

1.12 This guidance has been written for pension administrators and assumes knowledge of general pension terminology, and familiarity with pension calculations for the Local Government Pension Scheme (England and Wales). Any questions concerning the application of the guidance should, in the first instance, be referred to DLUHC.

Relevant legislative references

1.13 Regulation 34 of the 2013 Regulations provides that a member may elect to receive a lump sum through trivial commutation in lieu of pension payments.

1.14 Regulation 39 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166) ("the Benefit Regulations") permits administering authorities to pay a lump sum representing the capital value of a small pension to a member, or a surviving dependant of a deceased member. Regulation 39(2) of the Benefit Regulations states that the lump sum is calculated in accordance with guidance issued by the Government Actuary.

1.15 Regulation 156(3) of the Local Government Pension Scheme Regulations 1997 (SI 1997/1612) ("the 1997 Regulations") permits administering authorities to pay a lump sum representing the capital value of a small pension to a pension credit member.

1.16 Regulation 3(12) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525) ('the 2014 Scheme Transitional Regulations') requires that any reference to guidance issued by the Government Actuary under earlier regulations is to be construed as a reference to actuarial guidance issued by the Secretary of State as defined by the 2013 Regulations.

1.17 Where Regulations 4A to 4R of the 2014 Scheme Transitional Regulations apply to an eligible member or survivor, any final guarantee amount or survivor's guarantee amount respectively will need to be allowed for in the benefit amounts used for the trivial commutation calculations.

Third party reliance

1.18   This guidance has been prepared for the use of DLUHC and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on DLUHC and the scheme administrator's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.

1.19   When issued by the Secretary of State in accordance with paragraph 1.6 above, this note should be used as the actuarial guidance required under the regulations cited.

1.20   Other than DLUHC and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.

2 Commutation of a member's pension

2.1 Payment of a trivial commutation lump sum in respect of a pension is permitted under Regulation 34 of the 2013 Regulations and discharges administering authorities from their liability for any pension payable to the member, and for any pensions or lump sums which may become payable on the member's death (including children's pensions).

2.2 A case involving a member who retired in normal health who is under age 55 should be referred to DLUHC, for onward transmission to GAD, with full details.

2.3 A case involving a member who retired in ill health should be referred to DLUHC, for onward transmission to GAD, with full details.

2.4 The age specific factor is multiplied respectively by the member's total pension (including any GMP) and the contingent spouse's, civil partner's or eligible cohabiting partner's pension payable on the member's death.

2.5 The inclusion of an amount relating to a dependant's pension applies whether or not the member has a spouse, civil partner or eligible cohabiting partner at the time the commutation occurs. The dependant's pension used in the formula in 2.7 should be calculated as at the effective capitalisation date (the date on which the trivial commutation takes effect), and should reflect the pension that would be payable on the member's death in retirement.

2.6 DLUHC have confirmed that the calculations of trivial commutation amounts should use the same assumption on survivor entitlement for all members regardless of their gender or current relationship with a potential future survivor. The calculation should use the survivor benefit amount that would be payable to a pre-leaving female spouse (widow).

2.7 The lump sum capital value payable should be determined in accordance with the following formula:

Member's pension x Fac1

plus

Dependant's pension x Fac2

Where:

Fac1 = factor applied to Member's pension
Fac2 = factor applied to Dependant's pension payable on the member's death

*Both factors are ta*ken from Table 0-501A or 0-501B in the consolidated factor workbook.

Government
Actuary's
Department

LGPS (England and Wales)
Trivial commutation
Guidance note

2.8   The Member's pension and Dependant's pension are the pensions that would otherwise be paid if trivial commutation were not to proceed. Therefore, these pensions are the pensions after any early and late retirement adjustments as relevant, any reduction due to commutation for tax-free cash if relevant and, for members eligible for the statutory underpin, the pensions should include allowance for any final guarantee amount and survivor's guarantee amount as calculated under Regulations 4A to 4R of the 2014 Scheme Transitional Regulations.

2.9   Various restrictions on the trivial commutation of pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation) and contracting out legislation. Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the Local Government Pension Scheme (England and Wales) (LGPS) regulations.

3   Commutation of a dependant's pension

3.1   Administering authorities may commute the pension which is payable on a member's death to any surviving spouse, civil partner or eligible cohabiting partner or to (or in respect of) an eligible child or children by paying a trivial commutation lump sum death benefit.

3.2   The appropriate factors are multiplied by the dependant's total pension (including any GMP) to give the lump sum capital value payable.

3.3   This formula only allows for the dependant's <u>pension</u>: any lump sum death benefits should be paid separately.

3.4   The lump sum capital value payable should be determined in accordance with the following formula:

Dependant's pension x Fac1

Where:

> *Fac1* =factor taken from Table 0-502A or 0-502B in the consolidated factor workbook

3.5   The Dependant's pension is the pension that would otherwise be paid if trivial commutation were not to proceed. This includes any uplift in respect of the statutory underpin under Regulations 4A to 4R of 2014 Scheme Transitional Regulations.

3.6   Various restrictions on the trivial commutation of dependant's pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation) and contracting out legislation. Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS regulations.

4   Commutation of a child's pension

4.1   The appropriate factor is multiplied by the pension payable to or in respect of children to give the lump sum capital value payable.

4.2   All the factors for children are independent of gender. Those for children aged up to 15 are based on the child's age, while those for children aged 16 and over are based on the length of time until their 18th birthday or, if longer, until the date that the child is expected to remain in full-time education or vocational training (up to an upper limit of the child's 23rd birthday). Administering authorities should determine this period in the light of the individual child's circumstances.

4.3   Where a factor is required for a child aged 16 and over which does not relate to a whole number of years, this should be rounded to the nearest whole number of years.

4.4   No factors are provided to value a pension to a child who is incapacitated. Children's long-term pensions should not be commuted where one of the children in the family who is receiving a pension is under age 17 and incapacitated.

4.5   A case involving a child over age 17 who is not in full-time education or vocational training but is still an eligible child because he or she is incapacitated should be referred to DLUHC, for onward transmission to GAD, with full details.

4.6   The lump sum capital value payable should be determined in accordance with the following formula:

Child's pension x Fac1

Where:

Fac1 =   *f*actor taken from Table 0-503A or 0-503B in the consolidated factors workbook.

4.7   The 'Child's pension' is the pension that would otherwise be paid if trivial commutation were not to proceed. This includes any uplift in respect of the statutory underpin under Regulations 4A to 4R of 2014 Scheme Transitional Regulations.

4.8   Various restrictions on the trivial commutation of children's pensions are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation). Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS scheme regulations.

5 Commutation of a pension credit member's pension

5.1 Administering authorities may commute the pension payable to a pension credit member into a trivial commutation lump sum.

5.2 The lump sum capital value payable should be determined in accordance with the following formula:

Pension credit member's pension x Fac1

Where:

Fac1 = factor taken from Table 0-502A or 0-502B in the consolidated factor workbook according to the sex of the pension credit member.

The Pension credit member's pension is the pension that would otherwise be paid if trivial commutation were not to proceed.

5.3 Various restrictions on the trivial commutation of a pension credit member's pension are imposed by both the pension taxation regime under the Finance Act 2004 (and any amending legislation). Administrators should ensure that the payment of a lump sum in lieu of a small pension is compliant with these restrictions as well as with the LGPS regulations.

6 Examples

Example 1 – Trivial commutation - member's pension coming into payment at capitalisation date

Sex:	Male
Date of birth:	15 March 1961
Effective capitalisation date:	29 June 2024
Age in complete years on effective capitalisation date:	63

Member's total pension in payment:	£500.00 pa
Dependant's pension payable on the member's death:	£180.00 pa

Factors:

Fac1 =   20.22
Fac2 =   2.28

Trivial commutation lump sum payable:

(Member's pension × Fac1) + (Dependant's pension x Fac2)

= (£500.00 x 20.22) + (£180.00 x 2.28)

= £10,520.40

Note that no additional calculations are required in respect of the statutory underpin (for eligible members) as any uplift required should already be reflected in the pension amounts above.

Example 2 – Trivial commutation - Dependant's pension coming into payment at capitalisation date

Sex:	Female
Date of birth:	15 March 1971
Effective capitalisation date:	29 June 2024
Age in complete years on effective capitalisation date:	53
Dependant's pension payable on the member's death:	£325.00 pa

Factors

Fac1 =   25.58

Trivial commutation lump sum payable: **Dependant's pension x Fac1**

$$= (£325.00 \text{ x } 25.58)$$

$$\textbf{= £8,313.50}$$

Note that no additional calculations are required in respect of the statutory underpin (for eligible members) as any uplift required should already be reflected in the pension amount above.

Note that the same factor table would apply to a trivial commutation of a pension credit member's pension – see section 5 for relevant formula.

Example 3– Child's pension coming into payment at capitalisation date

Date of birth: 23 August 2006
Effective capitalisation date: 29 June 2024
Age in complete years on effective capitalisation date: 17
Number of years expected to remain in full-time education or vocational training: 4 years
(illustrative)

Child's total pension in payment: £660.00 pa

Factors:

Fac1 =   3.87

Trivial commutation lump sum payable = **Child's Pension × Fac1**

= £660.00 x 3.87

= £2,554.20

Note that no additional calculations are required in respect of the statutory underpin (for eligible members) as any uplift required should already be reflected in the pension amount above.

Appendix A: Assumptions underlying factors at time guidance is issued

Financial assumptions

Nominal discount rate	3.734%
CPI	2.00%
Real discount rate (in excess of CPI)	1.70%

Mortality assumptions

Base mortality tables and adjustments – normal health	99% of S3NMA_M (M) and 96% of S3NFA_M (F)
Base mortality tables and adjustments – dependants	96% of S3DMA (M) and 97% of S3NFA_H (F)
Future mortality improvement	Based on ONS 2020 principal UK population projections
Year of Use	2024

Other assumptions

Proportion of male members for unisex factors	35% for members and 65% for dependants
Proportion partnered	N/A
Age difference between member and partner	Males assumed 3 years older than partner. Females assumed 2 years younger than partner.

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Appendix B: Limitations

B.1   This note should not be used for any purpose other than those set out in this guidance note.

B.2   Factors are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest relevant factors at the effective date, as relevant, when processing cases.

B.3   Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.

B.4   This note only covers the actuarial principles around the calculation and application of trivial commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.

B.5   Scheme managers and administrators should satisfy themselves that trivial commutation calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.

B.6   This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of DLUHC and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.